

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

Notice of Market-Dominant  
Price Adjustment

Docket No. R2013-10

CHAIRMAN'S INFORMATION REQUEST NO. 5

(Issued October 22, 2013)

To clarify the Postal Service's planned market dominant price adjustments in its Notice of Market Dominant Price Adjustment, filed September 26, 2013, the Postal Service is requested to provide written responses to the following questions. Answers should be provided no later than October 25, 2013.

1. The Postal Service justifies the following workshare discounts under 39 U.S.C § 3622(e)(2)(D):

First-Class Mail Discounts

- (1) Mixed AADC Automation Cards;
- (2) AADC Automation Cards; and
- (3) ADC Automation Flats

Standard Mail Discounts

- (4) Nonautomation ADC Nonmachinable Letters;
- (5) Nonautomation 3-digit Nonmachinable Letters;
- (6) Automation 5-digit Flats;
- (7) Nonautomation 5-digit Flats; and
- (8) NDC irregular Parcels.

In response to CHIR No. 2, question 1, the Postal Service claims that it did not align these passthroughs with avoided costs because of volatility of past estimates of

avoided costs and the potential effects on mailer behavior arising from price increases. The Postal Service contends that additional price adjustments “could end up sending inconsistent and frequently changing price signals to mailers that could ultimately impact the efficient operations of the Postal Service.”

The 39 U.S.C § 3622(e)(2)(D) exception applies where there is a reasonable claim of “unusual operational circumstances” that would cause a reduction of the discount to impede the efficient operation of the Postal Service. See Order No. 66 at 34-35; 2009 ACD at 72. Please identify the specific operation(s) the Postal Service believes would be impeded if each of the above discounts were aligned with avoided costs.

### **Standard Mail**

2. The Postal Service cites the 3622(e)(2)(D) exception for (1) NDC Irregular Parcels; (2) NDC Marketing Parcels; and (3) SCF Marketing Parcels. Notice of United States Postal Service Notice of Market-Dominant Price Adjustment, October 11, 2013 at 49-51. The Postal Service notes the recent classification changes that have restructured the Parcel product have caused unit avoided costs to fluctuate. *Id.* In Docket No. R2013-1, the Postal Service stated that the Parcel mail processing avoided cost model was improved. See *id.* at 45.
  - a. Please confirm that the Parcel product restructuring was complete as of January 22, 2012, when the Docket No. R2012-3 rates took effect. If not confirmed, please explain.
  - b. Please explain when the Postal Service anticipates this model will produce accurate avoided cost estimates based on the new Parcel rate structure.
  - c. Please identify the specific operations that would be impeded if the Postal Service aligned these discounts with reported avoided costs.

3. In order to mitigate rate shock, the Postal Service identifies the exception claimed under 39 U.S.C. § 3622(e)(2)(B) as justification for the 5-digit nonmachinable letters passthrough exceeding 100 percent.
  - a. Please explain how this exception applies to the discount. Provide qualitative description and/or quantitative analysis (*e.g.*, economic damage or disruption to business plans) to support use of this exception.
  - b. Please provide a schedule for phasing out the amount of the discount above costs avoided.
4. The Postal Service stated that it did not align the commercial and nonprofit discounts for automation 5-digit flats because it did not want to increase the nonprofit passthrough further above 100 percent. *Id.* at 47. The Postal Service has proposed to increase the commercial automation 5-digit flats discount from 8.7 cents to 9.2 cents. Please explain why it was not feasible to increase commercial discount by less to align with the lower nonprofit discount of 9.0 cents.
5. The avoided cost associated with automation mixed ADC letters is negative 0.3 cents. In the 2012 ACD the Commission requested that the Postal Service investigate this anomalous cost. 2012 ACD at 123. The Postal Service explains that it “continues to evaluate potential solutions to this issue.” Notice at 46.
  - a. Please explain what steps the Postal Service has taken to correct this anomalous avoided cost estimate.
  - b. Please explain the rationale for increasing the discount from 0.8 cents to 1.1 cents for automation mixed ADC letters while a reliable avoided cost estimate is not available.

### **Special Services**

6. For Collect on Delivery (COD), the Postal Service indicates that the Notice of nondelivery, Alteration of COD charges, and Designation of new addressee options will no longer be offered as part of COD. The *Federal Register* notice announcing the changes indicates that they were scheduled to take effect on July 28, 2013. 78 FR 41305 (July 10, 2013). Please:
  - a. confirm that the changes were implemented prior to instituting the present docket;
  - b. explain why the changes do not constitute a rate adjustment under the Commission's rules;
  - c. explain what impact the changes have on the price cap for the Special Services class.

By the Chairman.

Ruth Y. Goldway